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BOYS & GIRLS CLUBS
OF SAN FRANCISCO

AUDIT REPORT

For the Year Ended September 30, 2008
(With Summarized Comparative Totals for 2007)

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LAUTZE & LAUTZE
CPA & FINANCIAL ADVISORS

INDEPENDENT AUDITORS' REPORT

Board of Governors
Boys & Girls Clubs of San Francisco
San Francisco, California

We have audited the accompanying statement of financial position of *Boys & Girls Clubs of San Francisco* (the Club) as of September 30, 2008, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Club's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Club's 2007 financial statements and, in our report dated February 22, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of *Boys & Girls Clubs of San Francisco* as of September 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 12, 2009, on our consideration of the Club's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Board of Governors
Boys & Girls Clubs of San Francisco

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of *Boys & Girls Clubs of San Francisco* taken as a whole. The accompanying schedule of expenditures of federal awards, as required by U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Lautre & Lautre

San Francisco, California
February 12, 2009

BOYS & GIRLS CLUBS OF SAN FRANCISCO
STATEMENT OF FINANCIAL POSITION
September 30, 2008

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents (\$6,427,025 restricted for long-term purposes)	\$ 7,549,622	\$ 4,188,872
Accounts receivable	389,559	90,981
Grants receivable	886,707	611,899
Promises to give, net (Note 2)	5,281,338	5,636,721
Prepaid expenses	158,301	154,900
Investments (Note 3)	2,757,872	4,001,186
Interest in net assets of Endowment Trust (Note 4)	21,257,617	27,997,593
Beneficial interest in remainder trust (Note 5)	237,681	247,055
Property and equipment, net (Note 6)	9,719,394	4,604,321
Construction in progress (Note 7)	<u>470,379</u>	<u>2,154,718</u>
Total assets	<u>\$ 48,708,470</u>	<u>\$ 49,688,246</u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 802,706	\$ 827,940
Accrued expenses	<u>304,474</u>	<u>215,448</u>
Total liabilities	<u>1,107,180</u>	<u>1,043,388</u>
Commitments and contingencies (Note 16)		
Net assets:		
Unrestricted (Note 8)	17,566,229	16,687,256
Temporarily restricted (Note 9)	10,930,061	9,539,097
Permanently restricted (Note 10)	<u>19,105,000</u>	<u>22,422,461</u>
Total net assets	<u>47,601,290</u>	<u>48,644,858</u>
Total liabilities and net assets	<u>\$ 48,708,470</u>	<u>\$ 49,692,202</u>

BOYS & GIRLS CLUBS OF SAN FRANCISCO
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2008
(With Summarized Comparative Totals for 2007)

	2008			2007
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Public support and revenue:				
Public support:				
Contributions:				
Individuals	\$ 820,657	\$ 753,647	\$ 2,000,000	\$ 3,574,304
Government	1,355,005	-	-	1,355,005
Federal awards	348,300	2,175,032	-	2,523,332
Foundations and trusts	1,356,740	3,230,825	-	4,587,565
Corporate	223,239	250,050	-	473,289
Bequests	1,488	-	-	1,488
Special events, net (Note 12)	518,021	-	-	518,021
Change in interest in net assets of Endowment Trust (Note 4)	(1,052,515)	-	(3,959,461)	(5,011,976)
Net change in beneficial interest in remainder trust (Note 5)	-	(9,374)	-	(9,374)
In-kind contributions	103,579	-	-	103,579
Net assets released from restrictions (Note 11)	6,341,175	(4,983,175)	(1,358,000)	-
Total public support	10,015,689	1,417,005	(3,317,461)	8,115,233
Revenue:				
Investment income (net of investment fees) (Note 3)	267,450	246,846	-	514,296
Net realized and unrealized investment gains (losses) (Note 3)	(542,429)	(272,887)	-	(815,316)
Other investment revenue	640,668	-	-	640,668
Membership dues	18,134	-	-	18,134
Camp fees	114,389	-	-	114,389
Net program incidental revenue	49,357	-	-	49,357
Rental income	33,944	-	-	33,944
Gain on disposal of property and equipment	-	-	-	-
Loss on sale of donated investments	(6,000)	-	-	(6,000)
Total revenue	575,513	(26,041)	-	549,472
Total public support and revenue	10,591,202	1,390,964	(3,317,461)	8,664,705
				15,050,482

See notes to financial statements.

BOYS & GIRLS CLUBS OF SAN FRANCISCO
STATEMENT OF ACTIVITIES (CONTINUED)
For the Year Ended September 30, 2008
(With Summarized Comparative Totals for 2007)

	2008			2007
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Expenses:				
Program services	\$ 7,940,724	\$ -	\$ -	\$ 7,940,724
Supporting services:				
Management and general	609,311	-	-	609,311
Fundraising	1,162,194	-	-	1,162,194
Total expenses	9,712,229	-	-	9,712,229
Change in net assets	878,973	1,390,964	(3,317,461)	(1,047,524)
Net assets:				
Beginning of year	16,687,256	9,539,097	22,422,461	48,648,814
End of year	\$ 17,566,229	\$ 10,930,061	\$ 19,105,000	\$ 47,601,290
				\$ 48,648,814

See notes to financial statements.

BOYS & GIRLS CLUBS OF SAN FRANCISCO
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2008
(With Summarized Comparative Totals for 2007)

	Program Services					
	Columbia Park	Ernest Ingold	Excelsior	Mission	Treasure Island	Tenderloin
Salaries	\$ 632,931	\$ 533,922	\$ 560,205	\$ 293,899	\$ 302,102	\$ 301,880
Employee benefits	110,298	90,791	100,491	46,321	34,713	54,786
Payroll taxes	46,982	39,007	41,336	21,160	22,394	22,035
Total salaries and related expenses	790,211	663,720	702,032	361,380	359,209	378,701
Program services contracts	41,947	13,573	2,421	5,630	33,574	1,125
Professional fees	15,211	12,831	13,463	7,063	7,260	7,255
Supplies	47,173	40,385	27,878	35,526	23,427	14,209
Telephone	15,341	9,179	7,974	3,422	6,197	4,935
Postage	343	289	345	159	164	215
Occupancy	116,260	130,562	88,703	18,882	32,994	16,244
Insurance	28,513	24,053	25,237	13,240	13,609	13,600
Equipment repairs and maintenance	7,121	6,995	13,009	3,083	4,154	963
Printing and publication	1,813	1,661	1,268	682	591	470
Advertising and promotion	980	759	912	1,661	3,249	560
Transportation and travel	12,233	34,920	8,507	7,913	7,946	6,424
Conferences and conventions	5,964	4,909	6,109	2,683	3,258	3,238
Membership dues	3,105	2,660	2,788	1,442	1,522	1,521
Scholarships and stipends	9,500	85	11,364	167	48	48
Miscellaneous	60	26	14	7	8	8
Total expenses before depreciation	1,095,775	946,607	912,024	462,940	497,210	449,516
Depreciation	142,680	34,072	23,828	4,169	5,326	630
	1,238,455	980,679	935,852	467,109	502,536	450,146
Other activity:	-	-	-	-	-	-
Bad debts (recovery)	-	-	-	-	-	-
Total expenses	\$ 1,238,455	\$ 980,679	\$ 935,852	\$ 467,109	\$ 502,536	\$ 450,146

See notes to financial statements.

BOYS & GIRLS CLUBS OF SAN FRANCISCO
STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
For the Year Ended September 30, 2008
(With Summarized Comparative Totals for 2007)

	Program Services				
	Willie Mays	Greater Visitation Valley	Citywide	Camp Mendocino	All Others
					Total
Salaries	\$ 430,306	\$ 424,822	\$ 471,981	\$ 389,371	\$ -
Employee benefits	73,331	53,391	74,569	83,936	-
Payroll taxes	30,982	30,870	35,497	30,823	-
Total salaries and related expenses	534,619	509,083	582,047	504,130	-
Program services contracts	19,404	10,848	33,115	92,183	-
Professional fees	-	10,210	-	20,701	-
Supplies	17,106	20,245	62,929	104,382	9,766
Telephone	7,308	9,361	2,495	6,695	-
Postage	233	230	560	2,350	-
Occupancy	74,833	119,720	13,518	120,743	-
Insurance	19,385	19,138	21,380	28,771	-
Equipment repairs and maintenance	8,179	5,825	1,588	4,204	(1,710)
Printing and publication	3,594	634	1,035	1,675	441
Advertising and promotion	248	759	718	3,695	-
Transportation and travel	13,918	10,911	90,453	69,031	-
Conferences and conventions	4,722	4,668	23,524	7,165	(732)
Membership dues	2,111	2,164	2,356	4,352	-
Scholarships and stipends	123	67	11,744	6,581	-
Miscellaneous	2,006	11	232	19	-
Total expenses before depreciation	707,789	723,874	847,694	976,677	7,765
Depreciation	37,248	15,561	965	48,374	-
	745,037	739,435	848,659	1,025,051	7,765
Other activity:	-	-	-	-	-
Bad debts (recovery)	-	-	-	-	-
Total expenses	\$ 745,037	\$ 739,435	\$ 848,659	\$ 1,025,051	\$ 7,765
					\$ 7,940,724

See notes to financial statements.

BOYS & GIRLS CLUBS OF SAN FRANCISCO
STATEMENT OF FUNCTIONAL EXPENSES (CONTINUED)
For the Year Ended September 30, 2008
(With Summarized Comparative Totals for 2007)

	Supporting Services		Totals
	Management and General	Fundraising	Total
	2008	2007	
Salaries	\$ 306,992	\$ 635,974	\$ 942,966
Employee benefits	49,576	65,315	114,891
Payroll taxes	20,418	44,525	64,943
Total salaries and related expenses	376,986	745,814	1,122,800
Program services contracts	26,469	151,476	177,945
Professional fees	55,700	6,410	62,110
Supplies	9,439	14,733	24,172
Telephone	6,508	7,579	14,087
Postage	2,207	11,301	13,508
Occupancy	42,347	58,244	100,591
Insurance	26,626	-	26,626
Equipment repairs and maintenance	5,805	11,180	16,985
Printing and publication	4,900	72,496	77,396
Advertising and promotion	17,067	63,049	80,116
Transportation and travel	3,053	2,170	5,223
Conferences and conventions	18,911	6,569	25,480
Membership dues	2,382	2,337	4,719
Scholarships and stipends	-	250	250
Miscellaneous	2,689	8,238	10,927
Total expenses before depreciation	601,089	1,161,846	1,762,935
Depreciation	8,222	348	8,570
	609,311	1,162,194	1,771,505
Other activity:	-	-	-
Bad debts (recovery)	-	-	-
Total expenses	\$ 609,311	\$ 1,162,194	\$ 1,771,505
			\$ 8,368,691

See notes to financial statements.

BOYS & GIRLS CLUBS OF SAN FRANCISCO
STATEMENT OF CASH FLOWS
For the Year Ended September 30,

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Change in net assets	\$ (1,047,524)	\$ 6,681,791
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	321,423	308,978
Bad debt expense	60,000	-
Gain on disposal of property and equipment	-	(2,595)
Loss on sale of donated investments	6,000	5,920
Change in allowance for doubtful promises to give	101,647	307,787
Change in discount on promises to give	(246,746)	250,677
Change in interest in net assets of Endowment Trust	5,011,976	(2,854,273)
Interest reinvested	(514,296)	(233,084)
In-kind donations	(103,579)	(68,545)
Bad debt recovery	-	(131,441)
Net realized and unrealized investment (gains) losses	815,316	(315,082)
Contributions restricted for long-term purposes	(8,264,455)	(4,239,475)
Decrease (increase) in assets:		
Accounts receivable	(298,578)	(38,627)
Grants receivable	(274,808)	(250,402)
Promises to give	440,482	(4,220)
Prepaid expenses	(3,401)	(12,339)
Beneficial interest in remainder trust	9,374	(14,660)
Increase (decrease) in liabilities:		
Accounts payable	(290,138)	56,400
Accrued expenses	<u>89,026</u>	<u>31,905</u>
Net adjustments	<u>(3,140,757)</u>	<u>(7,203,076)</u>
Net cash used by operating activities	<u>(4,188,281)</u>	<u>(521,285)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(3,235,355)	(98,916)
Cash paid for construction in progress	(251,897)	(1,405,359)
Purchase of investments	(2,495,957)	(448,132)
Proceeds from the sale or maturity of investments	3,438,251	386,240
Distributions from Endowment Trust	<u>1,728,000</u>	<u>1,502,783</u>
Net cash used by investing activities	<u>(816,958)</u>	<u>(63,384)</u>
Cash flows from financing activities:		
Proceeds from contributions restricted for long-term purposes	<u>8,362,033</u>	<u>775,185</u>
Net cash provided by financing activities	<u>8,362,033</u>	<u>775,185</u>
Net increase in cash and cash equivalents	3,356,794	190,516
Cash and cash equivalents:		
Beginning of year	<u>4,192,828</u>	<u>4,002,312</u>
End of year	<u>\$ 7,549,622</u>	<u>\$ 4,192,828</u>

BOYS & GIRLS CLUBS OF SAN FRANCISCO
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose and Organization

Boys & Girls Clubs of San Francisco (the Club) was created in 2001 as the result of a merger of two century old Boys & Girls Clubs, Columbia Park Boys & Girls Clubs and San Francisco Boys & Girls Clubs. The Club is a non-profit organization dedicated to providing young people, ages 6 to 18, access to safe, fun, educational and positive opportunities using a youth development approach. Resources offered to members include character and leadership development, sports and recreation, fine arts and crafts, educational enhancements, technology and career development, and health and life skills. There are nine locations throughout San Francisco and a summer camp in Mendocino County. The Board of Governors serves as an oversight and policy making body for the agency.

The Club's mission is to inspire and enable all young people, especially those from disadvantaged circumstances, to realize their full potential as productive, responsible and caring citizens.

Basis of Presentation

The financial statements of the Club have been prepared on the accrual basis of accounting and include all resources available to the Club. Summarized balances for the year ended September 30, 2007, are presented for comparative purposes only and are not intended to report the financial position, changes in net assets, and cash flows for each of the net asset categories.

The significant accounting policies which follow are described to enhance the usefulness of the financial statements to the reader.

Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Financial Statement Format

The Club classifies its net assets and activities into one of three categories: unrestricted, temporarily restricted, and permanently restricted. A description of these categories are as follows:

Unrestricted: Those net assets and activities which represent the portion of expendable funds that are available to support Club operations. A portion of these net assets may be designated by the Board of Governors for specific purposes.

BOYS & GIRLS CLUBS OF SAN FRANCISCO
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial Statement Format (continued)

Temporarily Restricted: Those net assets and activities which are donor-restricted for (a) support of specific operating activities; (b) investment for a specified term; (c) use in a specified future period; or (d) acquisition of long-lived assets.

Permanently Restricted: Those net assets and activities which are permanently donor-restricted for holdings of (a) assets donated with stipulations that they be used for a specified purpose, be preserved, and not be sold; or (b) assets donated with stipulations that they be invested to provide a permanent source of income.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, receivables, and accounts payable approximate fair value because of the short maturity of these instruments. The carrying amounts of long-term receivables approximate fair value as these receivables are discounted using a comparable risk-free rate.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Club considers all financial instruments with a maturity of three months or less, from the date of purchase, to be cash equivalents.

Accounts and Grants Receivable

Accounts and grants receivable represent uncollateralized obligations related to the Club's programs and grant contracts.

Accounts and grants receivable are due under normal trade terms requiring payment upon receipt. Unpaid receivables do not accrue interest.

Payments of accounts and grants receivable are allocated to specific invoices identified on the remittance advice, or, if unspecified, are applied to the earliest unpaid invoice.

The Club uses the allowance method to account for uncollectible accounts receivable. The allowance for doubtful accounts is based on historical experience and an evaluation of the outstanding receivables at the end of the year. As of September 30, 2008, all accounts receivable were considered collectible.

BOYS & GIRLS CLUBS OF SAN FRANCISCO
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises to Give

Promises to give are recorded when the promise is made. Promises to give due beyond one accounting cycle are recorded at their net present values using a comparable risk-free rate. The interest portion earned in future periods is recorded as a contribution in the period earned.

The Club uses the allowance method to account for uncollectible promises to give. The allowance for doubtful accounts is based on historical experience and an evaluation of the outstanding promises at the end of the year.

Investments

The Club records equity securities with readily determinable fair market values and all debt securities at fair market value with unrealized gains and losses included in the statement of activities.

Interest in Net Assets of Endowment Trust

The Club reports the activity from a financially-interrelated organization using the equity method. A significant portion of the underlying investments are in marketable securities whose values are determined by quoted markets. The Endowment Trust also invests in limited partnerships whose values are not determined by quoted markets but rather the general partners of those limited partnerships.

Property and Equipment

Items which cost \$5,000 or more and have an estimated useful life of more than one year are capitalized. Club properties are carried at cost or, if donated, at estimated fair value on the date of the gift. Assets acquired by capital leases are carried at their present values on their acquisition dates. Maintenance, repairs, and minor renewals are charged against the change in net assets. Additions and major renewals are capitalized. The cost and accumulated depreciation of assets sold or retired are removed from the respective accounts, and any gain or loss is reflected in the change in net assets. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Buildings	20 - 50 years
Building improvements	15 - 39 years
Furniture and equipment	5 - 10 years
Computer hardware	3 - 7 years
Computer software	3 years
Vehicles	5 years

BOYS & GIRLS CLUBS OF SAN FRANCISCO
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Revenue is recognized in the period in which the service has been provided.

Contributions

The Club recognizes all contributions in the year of receipt, regardless of compliance with restrictions. Contributions without donor-imposed restrictions are reported as unrestricted support. Contributions with donor-imposed restrictions are reported as either temporarily restricted or permanently restricted support, depending upon the type of restriction.

The satisfaction of a donor-imposed restriction on a contribution is recognized when the corresponding expenditures are incurred or when the time restriction expires. This occurs by increasing one class of net assets and decreasing another in the statement of activities. Such transactions are recorded as *net assets released from restrictions* and are reported separately from other transactions.

Donated marketable securities, materials, and equipment are recorded as contributions at their estimated value on the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Club reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Club reclassifies temporarily restricted net assets to unrestricted net assets at that time.

The Club is the beneficiary under various wills, the total realizable amount of which is not presently determinable. Such amounts are recognized as bequests receivable where clear title is established and the proceeds are measurable.

Contributed Services

The Club records contribution revenue for certain services received at the fair value of those services, if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are provided by individuals possessing those skills, and would be purchased if not donated. Certain volunteers provided tutoring and fundraising services throughout the year that are not recognized as contributions in the financial statements since the recognition criteria were not met.

For the year ended September 30, 2008, the Club received contributed legal services in the amount of \$41,500. The contributed services were provided by a member of the Board.

Grants

The Club is a sub-recipient of several federal and state grants.

BOYS & GIRLS CLUBS OF SAN FRANCISCO
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (continued)

Investment Income

Income earned and realized and unrealized gains on unrestricted investment transactions are included as income in the year earned. Investment income earned on net assets temporarily restricted for scholarships and program services is recorded as temporarily restricted in accordance with donor restrictions.

Income Taxes

The Club is a qualified organization exempt from federal and California income taxes under the provisions of §501(c)(3) of the Internal Revenue Code and §23701d of the California Revenue and Taxation Code.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities by major club programs. Accordingly, certain costs have been allocated among programs and supporting services benefited.

Concentrations of Risk

Financial instruments, which potentially subject the Club to a concentration of credit risk, principally consist of cash and short-term investments. The Club invests temporary cash in money market securities in various banks, commercial paper of industrial and other companies with high credit ratings, and securities backed by the United States Government. Cash in bank accounts may, at times, exceed federally-insured limits. The Club has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Advertising

Advertising costs are charged to expense when incurred. For the year ended September 30, 2008, advertising and promotion was \$93,657.

Reclassifications

Certain amounts in the 2007 financial statements have been reclassified in order to conform with the current year's financial statement presentation. These reclassifications have no effect on the change in net assets.

BOYS & GIRLS CLUBS OF SAN FRANCISCO
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncement

In August 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. The FSP provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). In addition, the FSP requires extensive new disclosures about an organization's donor-restricted and board-designated endowment funds, whether or not the organization is subject to UPMIFA. The FSP is effective for financial statements issued for years ending after December 15, 2008. The Club is currently evaluating the effect the FSP will have on its financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS 157 establishes a common definition for fair value to be applied to generally accepted accounting principles requiring the use of fair value, establishes a framework for measuring fair value, and expands the related disclosure requirements for fair value measurements. This accounting standard is effective for the Club for its fiscal year ending September 30, 2009. The Club is assessing the impact of adopting SFAS 157.

In February 2007, the FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No. 115*. SFAS 159 permits entities to choose to measure eligible items at fair value at specific election dates (the "fair value option"). This accounting standard is effective for the Club for its fiscal year ending September 30, 2009. The Club is assessing the impact of adopting SFAS 159.

2. PROMISES TO GIVE, NET

Promises to give, net consist of the following:

	Due Within 1 Year	Due Within 2 - 5 Years	Total
Unrestricted	\$ 95,369	\$ -	\$ 95,369
Capital Campaign	2,253,084	3,595,977	5,849,061
Allowance for doubtful accounts	(76,955)	(332,479)	(409,434)
Less discount to net present value	<u>-</u>	<u>(253,658)</u>	<u>(253,658)</u>
	<u>\$ 2,271,498</u>	<u>\$ 3,009,840</u>	<u>\$ 5,281,338</u>

BOYS & GIRLS CLUBS OF SAN FRANCISCO
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

2. PROMISES TO GIVE (CONTINUED)

The unrestricted promises to give are recorded as such because the donors have stipulated their use for the year ended September 30, 2008.

Promises to give due in two to five years are stated at their present values. Management has discounted these promises to give based on the three-year U.S. Treasury yield at September 30, 2008, which was 2.28%. The amortization of the discount will be recognized as additional contribution revenue over the period from the date the promise is made to the date of collection in accordance with any such donor-imposed restrictions. As of September 30, 2008, one donor comprises 51% of total promises to give.

3. INVESTMENTS

Investments at September 30, 2008, are composed of the following:

	Fair Market Value	Historical Cost	Accumulated Unrealized Gain
Unrestricted:			
Equity funds	\$ 771,657	\$ 518,850	\$ 252,807
Bond funds	<u>768,400</u>	<u>644,762</u>	<u>123,638</u>
	<u>1,540,057</u>	<u>1,163,612</u>	<u>376,445</u>
Temporarily restricted:			
Equity funds	618,960	591,784	27,176
Bond funds	<u>598,855</u>	<u>578,500</u>	<u>20,355</u>
	<u>1,217,815</u>	<u>1,170,284</u>	<u>47,531</u>
	<u>\$ 2,757,872</u>	<u>\$ 2,333,896</u>	<u>\$ 423,976</u>

The following analysis summarizes the investment return and its classification in the statement of activities:

	Unrestricted	Temporarily Restricted	Total
Interest and dividend income, net	\$ 267,450	\$ 246,846	\$ 514,296
Net unrealized and realized investment losses	<u>(542,429)</u>	<u>(272,887)</u>	<u>(815,316)</u>
	<u>\$ (274,979)</u>	<u>\$ (26,041)</u>	<u>\$ (301,020)</u>

BOYS & GIRLS CLUBS OF SAN FRANCISCO
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

3. INVESTMENTS (CONTINUED)

Interest and dividend income includes \$159,231 earned on cash and cash equivalents, which are not part of investments. Interest and dividend income are reported net of investment fees of \$12,517.

At November 30, 2008 the fair value of investments were estimated to have declined by approximately 15%. As these investments are considered long-term, management expects this decline in value to be temporary.

4. INTEREST IN NET ASSETS OF ENDOWMENT TRUST

The Club is, in part, supported by a separate trust, the Boys & Girls Clubs of San Francisco Endowment Trust (the Trust). The Trust has a separate Board of Trustees and exists exclusively for the benefit of the Club. Accordingly, the Trust's net assets and the changes therein are reported on the Club's financial statements.

The significant investments at September 30, 2008, are as follows:

Cash	\$ 532,285
Foreign obligations	343,835
Municipal bonds	6,481,720
Equities	11,863,685
Land	650,919
Other investments - limited partnerships	<u>1,385,173</u>
	<u>\$ 21,257,617</u>

The activity for the year ended September 30, 2008, is as follows:

Beginning balance	\$ 27,997,593
Net investment loss	(5,011,976)
Distributions to the Club	<u>(1,728,000)</u>
Ending balance	<u>\$ 21,257,617</u>

BOYS & GIRLS CLUBS OF SAN FRANCISCO
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

5. BENEFICIAL INTEREST IN REMAINDER TRUST

The Club is a one-seventh beneficiary of the Leo L. Schaumer Charitable Remainder Trust (the Schaumer Trust). A financial institution is the trustee and administers the Schaumer Trust. Under the terms of the Schaumer Trust agreement, at the time of the remaining income beneficiary's death, the Schaumer Trust will terminate and the remaining assets are to be distributed to the Club and the other named beneficiaries. Based on the income beneficiary's life expectancy, the present value of future benefits expected to be received by the Club is estimated to be \$237,681. Discount rates used to calculate present value are in compliance with the Internal Revenue Service guidelines. During the year ended September 30, 2008, the Schaumer Trust was not terminated and no assets had been distributed to the Club.

The activity for the pro-rata share of fair market value of trust assets for the year ended September 30, 2008 is as follows:

Balance - October 1, 2007	\$ 247,055
Change in fair market value	<u>(9,374)</u>
Balance - September 30, 2008	<u><u>\$ 237,681</u></u>

6. PROPERTY AND EQUIPMENT, NET

The major components of property and equipment at September 30, 2008, are as follows:

Land	\$ 909,830
Buildings and improvements	11,485,341
Furniture and equipment	420,748
Computer hardware	363,485
Computer software	74,103
Vehicles	<u>514,923</u>
	13,768,430
Less accumulated depreciation	<u>(4,049,036)</u>
	<u><u>\$ 9,719,394</u></u>

For the year ended September 30, 2008, depreciation expense was \$321,423.

BOYS & GIRLS CLUBS OF SAN FRANCISCO
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

7. CONSTRUCTION IN PROGRESS

During the year ended September 30, 2006, the Club commenced the construction of the Willie Mays Clubhouse at Hunters Point. The Willie Mays Clubhouse at Hunters Point was completed in June 2008. The Club has spent \$4,752,526 on this project. During the year ended September 30, 2007, the Club began the re-build of the Mission Clubhouse. As of September 30, 2008, \$327,099 has been spent on pre-construction expenses. Management estimates the total cost will be approximately \$7,700,000. Additionally, as of September 30, 2008, the Club has spent \$143,280 in construction in progress at Camp Mendocino.

8. UNRESTRICTED NET ASSETS

Components of unrestricted net assets are as follows:

Net investment in property and equipment	\$ 10,189,773
Amounts designated by the Board of Governors for long-term investment	<u>7,376,456</u>
	<u>\$ 17,566,229</u>

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets may be expended for:

Capital Campaign	\$ 9,474,269
Scholarship and Fine Arts Fund	811,882
Time restriction - beneficial interest in remainder trust	237,681
Send a Kid to Camp	86,046
Other program restrictions	<u>320,183</u>
	<u>\$ 10,930,061</u>

10. PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets include gifts with respect to which donors have stipulated, as a condition in the gift instrument, that the principal is to be held indefinitely. A portion of the Endowment Trust, which totaled \$19,105,000, is permanently restricted.

BOYS & GIRLS CLUBS OF SAN FRANCISCO
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

11. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from restrictions are as follows:

Construction in progress	\$ 3,358,790
Restricted for operations	1,781,779
Capital expenditures	1,139,012
Scholarship and Fine Arts Fund	58,173
All others	<u>3,421</u>
	<u>\$ 6,341,175</u>

12. SPECIAL EVENTS, NET

To supplement its fundraising activities, the Club held three program/fundraising events during the year ended September 30, 2008. Activity for the year ended September 30, 2008 is as follows:

Gross revenues	\$ 745,194
Less direct costs	<u>(227,173)</u>
	<u>\$ 518,021</u>

13. RELATED PARTY TRANSACTIONS

In 2005, the Club entered into a commitment with the City of San Francisco to open the Willie Mays Clubhouse at Hunters Point. Swinerton Builders was accepted as the construction manager for the project. They will not, however, perform any of the construction work. Swinerton Builders' President is a member of the Club's Board of Governors. Total fees to date for construction management services is \$846,734. For the year ended September 30, 2008, the Club paid \$486,526 to this related organization. In addition, the Club is working with Nibbi Brothers for the Mission Clubhouse construction project. Nibbi Brothers' CEO is a member of the Club's Board of Governors. The Club estimates that the construction fees will be approximately \$75,000. For the year ended September 30, 2008, the Club did not pay any amount to this related organization. In selecting Swinerton Builders and Nibbi Brothers, the Board of Governors and senior management had an independent third-party estimator review the proposed fees to verify costs.

14. RETIREMENT PLAN

The Club has elected to participate in the Pension Trust of Boys & Girls Clubs of America, a defined contribution plan. The plan covers employees who are 21 years of age or older and as of January 1st or July 1st, have worked more than 1,000 hours per year for two consecutive years. The Club contributes 10% of each eligible employee's annual compensation to a fully-funded, immediately vested retirement annuity contract for each individual. During the year ended September 30, 2008, the Club contributed \$254,402 to the plan.

BOYS & GIRLS CLUBS OF SAN FRANCISCO
NOTES TO FINANCIAL STATEMENTS
September 30, 2008

15. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

For the year ended September 30, 2008, the statement of cash flows does not include an operating and investing noncash transaction related to construction in progress incurred by accounts payable in the amount of \$264,904.

16. COMMITMENTS AND CONTINGENCIES

The site of the Willie Mays Clubhouse at Hunters Point is leased from the City of San Francisco for a term of five years ending in October 2010, with options to extend for four additional five-year terms. The lease calls for an annual rent of \$1. The Club is also obligated under noncancelable operating leases, primarily for office equipment, administrative office space, and program space that expire at various dates through 2013. The terms of the leases require monthly base payments which vary from \$194 to \$17,565. Rent expense for the year ended September 30, 2008, was \$316,511.

The following is a schedule of minimum lease commitments for the years ending September 30:

2009	\$ 340,804
2010	248,290
2011	239,113
2012	6,809
2013	<u>2,398</u>
	<u>\$ 837,414</u>

The Club receives funding under annual grants and contracts from federal and state agencies. If a significant reduction in the level of funding provided by these governmental agencies were to occur, it may have an effect on the Club's programs and activities. The Club's revenue, which is derived from restricted funding provided by government grants and contracts, is subject to audit by the governmental agencies.

The Club was involved in litigation, which occurred in the normal course of operations. During the year ended September 30, 2008, the matter was settled by the Club's insurance company subject to the normal deductible.

BOYS & GIRLS CLUBS OF SAN FRANCISCO

SUPPLEMENTARY FINANCIAL INFORMATION

For the Year Ended September 30, 2008

BOYS & GIRLS CLUBS OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2008

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Agency or Pass-Through Number	Federal Disbursements/ Expenditures
Bureau of Justice Assistance of the U.S. Department of Justice passed-through the Office of Emergency Services, Law Enforcement & Victim Services Division:			
▪ Project Safe Neighborhoods	16.744	US07-04-8510	\$ 110,000
Office of Juvenile Justice and Delinquency Protection of the U.S Department of Justice passed-through the Boys & Girls Clubs of America:			
▪ New Public Housing Boys & Girls Clubs Award	16.541	2007-OJP-PHS-014	124,590
U.S. Department of Housing and Urban Development passed- through the Mayor's Office of Community Investment:			
▪ Community Development Block Grant	14.218	-	2,175,031 *
Bureau of Justice Assistance of the U.S. Department of Justice passed-through the Office of Justice Programs:			
▪ Crime Prevention Initiative	16.580	2007-OJP-CR-007	14,361
U.S Department of Agriculture passed-through the State of California Department of Education:			
▪ Summer Food Service Program for Children	10.559	39-93808S	73,258
DPH MediCal EPSDT Pilot Program	-	POHMO4000631	<u>26,092</u>
			<u>\$ 2,523,332</u>

* Major Program

Basis of Accounting:

The schedule of expenditures of federal awards has been prepared on the accrual basis of accounting.

Basis of Presentation:

The schedule of expenditures of federal awards includes the federal grant activity of *Boys & Girls Clubs of San Francisco*. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



LAUTZE & LAUTZE
CPAs & FINANCIAL ADVISORS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Board of Governors
Boys & Girls Clubs of San Francisco
San Francisco, California

We have audited the financial statements of *Boys & Girls Clubs of San Francisco* (the Club) as of and for the year ended September 30, 2008, and have issued our report thereon dated February 12, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Club's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Club's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Club's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the Club's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Club's financial statements that is more than inconsequential will not be prevented or detected by the Club's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Club's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Governors
Boys & Girls Clubs of San Francisco

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the Club's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of the Club in a separate report dated February 12, 2009.

This report is intended solely for the information and use of management, the Board of Governors, the federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lautre & Lautre

San Francisco, California
February 12, 2009



LAUTZE & LAUTZE
CPAs & FINANCIAL ADVISORS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Governors
Boys & Girls Clubs of San Francisco
San Francisco, California

COMPLIANCE

We have audited the compliance of *Boys & Girls Clubs of San Francisco* (the Club) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2008. The Club's major federal programs are identified in the summary of auditors' results section of the accompanying *schedule of findings and questioned costs*. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Club's management. Our responsibility is to express an opinion on the Club's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Club's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Club's compliance with those requirements.

In our opinion, the Club complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008.

INTERNAL CONTROL OVER COMPLIANCE

The management of the Club is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Club's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the Club's internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Club's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Governors, the federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lautre & Lautre

San Francisco, California
February 12, 2009

BOYS & GIRLS CLUBS OF SAN FRANCISCO

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2008

BOYS & GIRLS CLUBS OF SAN FRANCISCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2008

SECTION I - SUMMARY OF THE AUDITORS' RESULTS

- Type of auditors' report issued on financial statements: unqualified.
- Internal control over financial reporting:
 - ◆ Material weaknesses identified: no.
 - ◆ Significant deficiencies identified that are not considered to be material weaknesses: none reported.
 - ◆ Noncompliance material to financial statements noted: no.
- Federal awards - internal control over major programs:
 - ◆ Type of auditors' report issued on compliance for major programs: unqualified.
 - ◆ Material weaknesses identified: no.
 - ◆ Significant deficiencies identified that are not considered to be a material weakness: none reported.
 - ◆ Any audit findings identified that are required to be reported in accordance with Section 510(a) of Circular A-133: no.
 - ◆ Major programs: U.S. Department of Housing and Urban Development Community Development Block Grant, CFDA 14.218
 - ◆ Dollar threshold used to distinguish between Type A and Type B programs: \$300,000.
 - ◆ Auditee qualifies as low-risk: yes.

SECTION II - FINANCIAL STATEMENT FINDINGS

- See separate report dated February 12, 2009.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

- None reported.